

## **Crab Rationalization Committee - February 15-16, 2001 Meeting Minutes**

The Crab Rationalization Committee met in Seattle on February 15-16. The following members were in attendance:

Dave Hanson, Chair	Paula Brogdan	Tom Casey
Terry Cosgrove	John Garner	Don Giles
Leonard Herzog	John Iani	Kevin Kaldestad
Frank Kelty	Linda Kozak	Brent Paine
Gary Painter	Joe Plesha	Dale Schwarzmiller
Jeff Steele	Steve Minor (for Simeon Swetzof)	Arni Thomson

Chris Oliver and Maria Tsu from the Council staff, Gretchen Harrington from NMFS and Herman Savikko from ADF&G also attended. Marcus Hartley from Northern Economics was also in attendance at the request of Council staff.

Dr. Hanson opened the meeting by welcoming new Committee members Paula Brogdan and Kevin Kaldestad. He reiterated that the Committee's goal is to develop reasonable options for analysis and not to select a Preferred Alternative for the Council at this time. Dr. Hanson also expressed his desire that the Committee would operate on a consensus basis and that there would not be formal motions and votes. The Committee agreed to operate under these rules.

Chris Oliver provided an overview of several handouts prepared by staff, including (1) a summary of past meetings by the ad-hoc industry committee, (2) the latest version of issues and options developed by the ad-hoc industry committee (called "Bering Sea Crab Cooperative Options"), and (3) a discussion of analytical issues (including available data) developed by Council staff.

Dr. Hanson then requested the Committee's input regarding how best to proceed in order to prioritize the Committee's time. Several members expressed an interest in spending more time on the models or framework for crab rationalization (i.e., Harvester IFQs, Processor IFQs, Cooperatives, Community Quotas, Regionalized Quotas, 2-Pie IFQ Model, etc.). Members also indicated that the Committee should try to avoid getting too bogged down in the details such as harvester catch history. This suggestion was based on the view that the ad-hoc industry committee had already spent a great deal of time discussing qualifying years for harvester catch history and that a consensus could be reached quickly. The Committee then agreed to consider proposals from each of the three major stakeholder groups, one at a time, with the understanding that the members of the other two groups would participate in the discussions and suggest changes but would not attempt to add measures or options that would be counter-productive. Following consideration of each proposal, the Committee agreed to consider modifications that may be needed to fit the proposals together.

### **Proposal for a Harvesting Sector IFQ Program:**

The Committee then proceeded to review a proposal for harvest vessel IFQs forwarded by Jeff Steele (hereafter referred to as the Steele Proposal). The Steele Proposal contained a Problem Statement, a set of objectives, a suite of options for IFQs for catcher vessels, and a set of conditions that would make a two-pie system more acceptable to harvesters. The Committee spent several hours discussing and making significant changes to the options for the harvesting sector IFQs (see Attachment 1 for revised issues and options). One committee member objected to a number of points but did not want to block consensus at this point. Some of the main issues discussed were as follows:

1. General consensus was reached to include years 1990-1999 only. While a few expressed an interest in including 2000/2001, the vast majority recommended that 2000/2001 be excluded. The main reasons cited for excluding 2000/2001 were (a) processing side-boards were in effect, (b) the low GHLS in both 2000 and 2001, (c) icy conditions in 2000 delayed the season, and (d) the harvester strike in 2001.
2. The Committee discussed how deadloss would be treated. It was agreed that deadloss would not count in the initial allocation but would count against a harvester's quota. The main reason cited for excluding deadloss in the initial allocation was to avoid rewarding those with high deadloss. Also, there was concern that the method used to report deadloss in the early years was not accurate.
3. The Committee had a lot of discussion on who would be eligible to receive quota shares by transfer. As proposed, only initial issues or eligible crew members could receive quota shares by transfer. Concerns were raised that this may create a "closed class" system. Others suggested that participants in other (Federal) fisheries should be able to buy into the crab fishery. The Committee was not able to reach consensus on this issue and agreed to postpone further discussion until the March meeting.
4. The Committee discussed the various options for transferability. Since many felt that the options for transferability would require significant more thought and discussion, the Committee decided to postpone further discussion of transferability until the March meeting. To assist in identifying suitable options for transferability, the Committee requested staff to provide any previous analyses that could shed light on the goals and effectiveness of various types of transfer restrictions.

#### Proposal for Processing Quota Shares:

The Committee next considered a proposal for processing quota shares from Don Giles (this proposal supersedes all previous processing sector proposals discussed during the ad-hoc industry committee meetings). The proposal suggested a "two-pie" system, in which processor shares for a predetermined percentage of the GHSL would be allocated to eligible processors based on processing history, with the remainder of the GHSL available to any processor as a means to promote competition. The Committee accepted the range of allocated shares suggested by the processors of 80 to 90% of the GHSL, recognizing that the Council was free to broaden the range for analytical purposes. (There was much discussion and lack of consensus on this range of percentages.)

The Committee then discussed how the processing quota share system would be implemented based on a proposal provided by Arni Thomson. In order to implement the processing quota share system, harvesters would receive two classes of harvesting quota shares, A and B. Any amount harvested using Class A shares must be delivered to a processor holding processing quota shares. Any harvest using Class B shares may be delivered to any processor qualified to receive harvest under the "open access" terms and conditions.

With respect to the two-pie IFQ proposal, the Committee discussed several other issues identified by those representing the harvesting sector (page 3 of the Steele Proposal). The Committee agreed that the degree of vertical integration (processor ownership of harvesters) should be analyzed. The degree of vertical integration is viewed as relevant to whether restrictions are needed to prevent further vertical integration of the industry. Staff noted that determination of the degree of vertical integration may be expensive and time consuming. Members representing the processing sector agreed that processors would provide this information. The Committee also requested that the analysis include the Halverson report, which analyzes the "balance of power" issue between harvesters and processors.

#### Proposal for a Regionalization Model:

The Committee next reviewed a proposal to restrict transfers of harvesting and/or processing shares between regions of the BSAI (presented by Steve Minor). Two regions were proposed—a Pribilof /Bering Sea Region (PBS) and Aleutian Chain/Alaska Peninsula Region (ACAP). Under the proposal, an endorsement would be assigned to processing shares which restricts the region in which the shares may be used based on deliveries to the region in the past. The endorsements would be assigned to harvesting shares, if processing shares are not approved. Under the regionalization model, harvesting and/or processing quota shares may be transferred within a region but transfers between regions would be restricted. The Committee agreed that the proposed regionalization model should be considered as an overlay to the harvester and/or processor quota share programs for purposes of analysis.

#### Proposal for AFA Vessels under BSAI Crab Rationalization:

The Committee considered several options for incorporating AFA vessels into a crab rationalization program (handout from Brent Paine). The proposal consisted of three parts: (1) convert the AFA BBRKC Sideboard limits into quota and allow AFA vessels to form a cooperative to manage this quota; (2) terminate regulations governing AFA crab sideboards if a quota-based crab rationalization program is implemented; and (3) if capacity reduction goes into effect without crab rationalization, modify AFA crab sideboards to allow AFA catcher boats to share proportionally in any increase in crab harvest opportunities that accrue to remaining crab vessels. While the Committee did not object to this request, many Committee members were opposed to the idea that AFA vessels could buy or sell quota shares from non-AFA vessels.

#### BSAI “Buyback” - Fishing Capacity Reduction Program:

NMFS staff (Gretchen Harrington and Phil Smith via teleconference) provided an update on the status of proposed revisions to the “Buyback” legislation. The potential time-line was reviewed for the *best case scenario* as follows: if the proposed rule is published in early March, following a 45-day comment period, the final rule could be published in early May. Then, a list of eligible bidders would be published in early July and invitations to bid would be mailed to eligible bidders by the end of July. After NMFS collects the bids, the bids would be ranked and assigned bid scores. Those whose bids are accepted would be notified. Following notification, a referendum would be held to allow a fleet-wide vote on the buyback based on the number of vessels, number of licenses and gross value of the accepted bids. If the referendum fails, the buyback would also fail.

The Committee then reviewed proposed revisions to the legislation and made several suggestions. The Committee strongly objected to some of the changes NMFS had proposed. NMFS indicated that these suggestions would be taken into consideration. The Committee further recommended that the legislative language be clarified so that the term “permits” is interpreted broadly to include potential IFQs, Co-op’s, or other rationalization programs rather than being narrowly interpreted to refer only to LLP licenses. Finally, the Committee recommended that NMFS move forward as quickly as possible on the revisions and implementation of the Buyback program.

#### Next Committee Meeting:

The Committee scheduled their next meeting for March 22-23 in Anchorage (starting at 10:00 am on March 22). The Committee expressed its intent to flesh out the options governing transferability and to finalize the list of issues and options for analysis in time for the Council meeting in April.

**BSAI Crab Rationalization - Issues and Options for Analysis**  
(February 15-16, 2001)

**Draft Problem Statement**

The crab fisheries in the Bering Sea/Aleutian Islands are fully utilized. Despite amendments to the LLP Program and AFA sideboards, capacity in these crab fisheries far exceeds available resources. The ability of crab harvesters to diversify into other fisheries has been severely curtailed under the LLP program and other management actions designed to bring stability to other gear groups and species. Many of the concerns identified by the NPFMC at the beginning of the comprehensive rationalization process in 1992 still exist for the BSAI crab fisheries. The race for fish continues to result in:

1. Resource/conservation management problems
2. Bycatch/handling mortality and dead loss
3. Excess harvesting capacity
4. Lack of economic stability
5. Safety issues

In the continued process of comprehensive rationalization, prompt action is needed to protect the crab resource and to promote stability for those dependent on the crab fisheries. In order to achieve a balanced resolution, the concerns of harvesters, processors and coastal communities must be addressed.

**Harvesting Sector IFQ Program Options**

General Features of IFQ Program:

1. Crab fisheries included in program:
  - a. Those subject to Federal FMP for BSAI
  - b. Closed and Developing Fisheries
2. Basis for calculating QS/IFQs:
  - a. GHJ
  - b. TAC
  - c. Deadloss:
    - i. does not count in initial allocation of QS
    - ii. counts against season's IFQ allocation
  - d. Landings:
    - i. IFQs required only for processed and landed catches
    - ii. IFQs required for all crab species landed in a crab fishery
3. Categories of QS/IFQs:
  - a. By crab species (Red King Crab, Blue King Crab, Brown King Crab, Opilio Crab and Baridi Crab)
  - b. By harvesting sector:
    - i. Catcher Vessel (CV)
    - ii. Catcher/Processor (CP)
  - c. No vessel size categories
  - d. By type of processor to which deliveries are made (applies to CV shares only):
    - i. Class A shares - deliveries only to Eligible Processors that hold processing quota shares
    - ii. Class B shares - deliveries to any processor

[Note: these options were added to reflect the Committee's proposal for implementing the two-pie IFQ system.]

- e. By BSAI region (applies to CV and C/P shares):
  - i. Two-region model
  - ii. Three-region model

[Note: these options were added to reflect the Committee's proposal for implementing the regionalization model.]

- 4. Gear and seasonal restrictions:
  - a. Pots are only legal gear for retention of crab
    - i. Pot limits
    - ii. No pot limits
  - b. Seasonal restrictions do/do not apply
- 5. Persons eligible to receive an initial allocation of QS:
  - a. Persons that have L.L.P. permits and endorsements for each crab species
  - b. U.S. citizens
  - c. U.S. corporations and partnerships

Qualifying periods for determination of QS distribution (fishery-by-fishery options):

[Note: the Committee agreed to replace the proposed qualifying periods (in the Steele Proposal) with the fishery-by-fishery options from the ad-hoc Co-op options (staff handout). General consensus was reached to include years 1990-1999 only.]

- 1. Opilio
  - a. 1990 - 1999
    - i. All years
    - ii. Best 7 years
  - b. 1992 - 1999
    - i. All years
    - ii. Best 5 years
  - c. 1995 - 1999
    - i. All years
    - ii. Best 3 years
- 2. Bristol Bay red king crab
  - a. 1990 - 1999
    - i. All years
    - ii. Best 7 years
  - b. 1992 - 1999
    - i. All years
    - ii. Best 5 years
  - c. 1995 - 1999
    - i. All years
    - ii. Best 3 years
- 3. Pribilofs
  - a. 1996-1998
- 4. St. Matthew
  - a. 1996-1998
- 5. Bairdi
  - a. 1994 - 1996
  - b. 1990 - 1997
- 6. Adak red king crab

- a. 1992-1995
- 7. Adak brown crab
  - a. 1996-1998
- 8. Closed or Developing Fisheries

#### Calculation of Initial Allocation of QS

- 1. Based on 100% of average catch history during qualifying years for each fishery
- 2. Percentage categorized as Class A or B (under a two-pie IFQ system):
  - a. 80% Class A, 20% Class B
  - b. 90% Class A, 10% Class B
- 3. Percentage of CV and C/P quota shares endorsed by BSAI region:
  - a. Based on region where catch was landed
  - b. Based on region where catch was processed

#### Transferability of QS (permanent) and IFQs (leasing):

- 1. Persons eligible to receive QS/IFQs by transfer:
  - a. U.S. Citizens of crab QS/IFQ record
  - b. U.S. Corporations and partnerships of crab QS/IFQ record
  - c. Crew member program developed to allow eligibility

Suboption: owner on board and/or 20% ownership rule

*[Note: the Committee had a lot of discussion on who would be eligible to receive quota shares by transfer. The Committee was not able to reach consensus on this issue and agreed to postpone further discussion until the March meeting.]*

- 2. Transfer restrictions between harvesting sectors:
  - a. No transfers (convertibility) of QS/IFQs between CV and C/P sectors
  - b. Transfers allowed between CV and C/P sectors
- 3. Limits on transfers during first 2 years after implementation
  - a. Leasing (of IFQ) only (no permanent transfers) during first 2 years
    - i. Only by those qualified to purchase QS
    - ii. Only to vested owners of 20% or more in vessel
  - b. Leasing allowed upon implementation
- 4. Caps
  - a. Apply only to transfers and new purchases; grandfather initial issuees at their initial allocation
  - b. Percentage range appropriate for each crab fishery
  - c. Apply individually and collectively for each crab fishery

*[Note: the Committee agreed that the options for caps need to include ranges for each fishery.]*

- 5. Other transfer restrictions:
  - a. By processor category (Class A/B)
    - i. No convertibility between Class A and Class B shares
    - ii. Freely transferable within CV sector among those qualified to receive transfers
  - b. By regional designation
    - i. No transfers (convertibility) between BSAI regions
    - ii. Freely transferable within BSAI regions among those qualified to receive transfers

**Processing Sector IFQ Program Options**

1. Eligible Processors:
  - a. Crab processors that processed crab for a fishery in 1998 or 1999
  - b. Eligible to receive Bairdi crab processing shares if:
    - i. Eligible for opilio processing shares
    - ii. Eligible for Bristol Bay red king crab processing shares
2. Processing shares shall be awarded to Eligible Processors based on three-year average processing history for each fishery as follows:
  - a. 1997-1999 for Bristol Bay red king crab;
  - b. 1996-1998 for Pribilof red king crab;
  - c. 1996-1998 for St. Mathew blue crab;
  - d. 1997-1999 for brown king crab [*Note: some processors would omit this fishery or include the Dutch Harbor fisher but not include the Aleutian Islands fishery*]
  - e. 1997-1999 for opilio crab;
  - f. Bairdi crab based on 50/50 combination of processing history for BBRKC and opilio
3. Amount of processing quota shares awarded to Eligible Processors:
  - a. Based on a percentage of its processing history for each crab fishery:
    - i. 80%
    - ii. 90%
  - b. Remaining percentage allocated to deliveries made on an open-access basis:
    - i. 10%
    - ii. 20%
  - c. Classification by BSAI region:
    - i. processing quota shares
    - ii. include deliveries made on an open-access basis
4. Implementation:
  - a. Deliveries using Class A shares count against the processor's quota shares
  - b. Deliveries using Class B shares do not count against the processor's quota shares
5. Transferability of processing shares:
  - a. Freely transferable, including leasing
  - b. May be used by any facility of the Eligible Processor (without transferring or leasing)
  - c. No transfers between BSAI regions (defined by regionalization program)
6. Caps - Terminate the crab processing caps enacted by Section 211(c)(2(A) of the AFA
7. Program remains in effect unless overridden by subsequent amendments to the MSFCMA.
8. Penalties - Eligible Processors must fully utilize their processing quota shares in the season while a fishery is open or lose the amount that is not utilized in the next season. [*Note: some Committee members felt that "use it or lose it" penalties should apply symmetrically to both harvesters and processors.*]

## **Regionalization Program**

**Proposed Goal:** Protect community/regional investments (jobs and infrastructure) and history in the crab industry within a framework that allows the private sector to decapitalize and shift effort in a reasonable manner.

### **Features of Regionalization Program:**

1. Number of regions:
  - a. Two regions (Pribilof/Bering Sea Region and Aleutian Chain/Alaska Peninsula Region)
  - b. Three regions (Pribilof Islands; Alaska Peninsula and Aleutian Islands; Kodiak)
2. Restrictions on other sectors:
  - a. Harvesting sector (one-pie or two-pie IFQ program)
    - i. All quota shares are classified by region
    - ii. Only class A shares are classified by region
    - iii. No transfers of quota shares between regions
    - iv. Transfers (including leasing) allowed within a region
  - b. Processing sector (two-pie IFQ program)
    - i. Processing quota shares are classified by region
    - ii. Regional restrictions apply to deliveries made on open access basis
    - iii. No transfers of processing quota shares between regions
    - iv. Transfers (including leasing) allowed within a region
  - c. Basis for regional designation
    - i. Historical landings
3. Recency Provisions for each sector
  - a. Harvesting:
    - i. 1990-1999
    - ii. 1992-1999
    - iii. 1995-1999
  - b. Processing:
    - i. 1995-1999
    - ii. 1997-1999
4. AFA sideboards shall be eliminated upon implementation
5. Other competitive features:
  - a. Pribilof/Bering Sea Region (Federal) freight subsidy for the duration of the disaster

### **Options for AFA Vessels**

1. Convert the AFA BBRKC sideboard limit into a quota (crab QS/IFQs)
  - a. Allow listed AFA vessels to form a cooperative
  - b. Allow AFA vessels to buy/sell crab QS/IFQs
2. If quota-based crab rationalization program goes into effect, terminate regulations governing AFA crab sideboards.
3. If crab buy-back program goes into effect without crab rationalization, modify AFA crab sideboards to permit AFA vessels to share proportionately in any increase in crab harvest opportunities that accrue to remaining crab vessels.